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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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Federal Communications Commission
Office of Secretary

In the Matter of:)
)
Implementation of the) CC Docket No. 96-150
Telecommunications Act of 1996:)
)
Accounting Safeguards Under the)
Telecommunications Act of 1996)

PETITION FOR LIMITED RECONSIDERATION

The Southern New England Telephone Company (SNET) respectfully submits this Petition for Reconsideration of the Report and Order adopted by the Federal Communications Commission (Commission) in this proceeding.¹

SNET seeks limited reconsideration of the Report and Order only to allow SNET to utilize the same exception provided to other Local Exchange Carriers (LECs) in the valuation of affiliate transactions, to prevent SNET's subscribers from being unfairly burdened with costs, only because SNET's corporate structure may differ from other LECs.

I. INTRODUCTION

The Report and Order requires that services provided by, and to, a LEC be recorded at the higher of market or fully distributed cost (FDC), and the lower of market or FDC,

¹ In the Matter of Implementation of the Telecommunications Act of 1996: Accounting Safeguards Under the Telecommunications Act of 1996, CC Docket No. 96-150, Report and Order, released December 24, 1996 (FCC 96-490) (Report and Order).

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respectively.² The Commission allows an exception from the market valuation of services provided to a LEC by an affiliate that exists solely to provide such services.³

SNET's corporate structure does not presently include an affiliate service company that exists solely to provide services to members of the SNET corporate family. SNET provides these services (such as human resources, accounting, legal, information technology, finance, etc.) through its regulated telephone company, an affiliate of The Southern New England Telecommunications Corporation, the holding company. Such services are provided solely to internal departments of the telephone company, and solely to affiliates of the telephone company's holding company.

SNET respectfully requests that the Commission reconsider its Report and Order and extend the exception in Paragraph 148 and Rule 32.27(c) to include those situations where a LEC such as SNET provides services *exclusively* for its corporate family. These transactions would then be based upon FDC, rather than an estimate of fair market value (if estimated market value were higher). This limited reconsideration would benefit SNET's subscribers in the same manner that the exception benefits subscribers of other LECs with a separate service company structure.

II. THE COMMISSION SHOULD APPLY THE FULLY DISTRIBUTED COST STANDARD TO INCLUDE THOSE SERVICES PROVIDED BY A LOCAL EXCHANGE CARRIER EXCLUSIVELY TO OTHER AFFILIATED MEMBERS OF ITS CORPORATE FAMILY.

In the Report and Order, the Commission conforms the valuation methods for the provision of services, to those methods currently used to value asset transfers under the Part 32 affiliate transaction rules.⁴ The adopted rule requires LECs to record all affiliate

² Report and Order, para. 147; Appendix B, § 32.27(c).

³ Report and Order, para. 148; Appendix B, § 32.27(c).

⁴ Report and Order, para. 147.

transactions that are neither tariffed nor subject to prevailing company prices at the higher of cost or estimated fair market value when the LEC is the seller or transferor, and at the lower of cost or estimated fair market value when the LEC is the buyer or transferee.

In paragraph 148, the Commission provides an exception to this rule, and provides that, where a LEC purchases services from its affiliate that are neither tariffed nor subject to prevailing company prices, and such affiliate exists solely to provide services to members of the LEC's corporate family, the transaction should continue to be valued at FDC. That is, no market valuation would be required when the service is provided *solely* within the corporate family. The Commission provided for this exception based on its finding that when an affiliate is established to provide services *solely* to the LEC's corporate family, the benefits of economies of scale and scope are reflected in such affiliate's costs, and ultimately transferred to rate payers through transactions with the LEC for services valued at FDC.⁵ SNET agrees with and endorses the rationale supporting the exception.

SNET recommends that, where a LEC provides services to its affiliate that are neither tariffed nor subject to prevailing prices, and the LEC provides services only to members of its corporate family, those transactions should also be valued at FDC. For example, SNET presently provides certain services -- such as human resources, accounting, finance, information technology, etc. -- to internal departments, as well as to unregulated affiliates in SNET's corporate structure. These services are performed solely for members of the corporate family and are not offered or sold to unaffiliated parties.⁶ In this case, where SNET provides services solely for affiliates, it functions, in effect, as a service company, with the same intent as expressed in paragraph 148, to provide services "solely" to corporate

⁵ Report and Order, para. 148.

⁶ SNET does provide occasional "incidental" activities to unaffiliated parties, in accordance with Section 3 of SNET's Cost Allocation Manual (CAM), but the value of these services is minuscule.

family affiliates. Significant benefits thereby accrue to subscribers through economies of scale and scope.

SNET requests that the Commission modify the exception to include those situations where a separate service company may not exist, but where services are provided by a corporate family member solely for the corporate family. As described above, SNET and other LECs may not have established service companies *per se*, yet those LECs, through a different corporate structure, may also provide services exclusively for the benefit of the entire corporate unit.

III. EXCHANGE CARRIERS WOULD BE UNDULY BURDENED BY ATTEMPTING TO OBTAIN MARKET VALUATION INFORMATION.

The burden of obtaining market values for services that SNET performs exclusively for itself and its affiliates is significant, and would produce little value.⁷ The Report and Order and § 32.27(c) now require SNET to generate an estimate of market value for every one of the services provided by SNET to its affiliates.⁸ In order to perform these analyses, SNET must add and/or devote resources to evaluate the extent to which comparable services are offered by vendors, and if so, what the prices would be. This will be a complex and difficult undertaking, because determining the values from outside sources for services that would be direct substitutes for all current processes would take a large amount of time, to derive a value that might not be used.⁹ Even if available, obtaining estimates of fair

⁷ Since this requirement necessitates the expenditure of additional funds exclusively to address a new regulatory requirement, it would appear to contradict the regulatory forbearance objectives contained in the Telecommunications Act of 1996, at Section 10.

⁸ The attached matrix, "Services And Supplies Provided By The Telco To Affiliates," lists 94 affiliate transactions for which market value studies would be required. This matrix is contained in SNET's CAM at Page V-33 (December 31, 1996).

⁹ For example, determining the fair market value for payroll services for the SNET corporation's 9,000 management, bargaining unit, temporary, provisional, part time employees, with benefit deductions, moves, changes, taxes, mechanized processing, etc., would take a significant amount of time to derive a number that, at the end of the process, might not ever be used.

market value of services specifically tailored to the corporate family would result in a significant non-value-added expenditure of company and audit resources, ultimately borne by the ratepayer.

SNET also asserts that, while recording the FDC of an affiliate transaction on the LEC's books is adequate to protect subscribers, any prices charged to affiliates higher than FDC could disincent the purchase of these services by affiliates. This would deprive the regulated telephone entity of the ability to recover at least some share of fixed costs, which would then be borne in full by subscribers.

IV. CONCLUSION

SNET seeks limited reconsideration of the Report and Order only to allow SNET to utilize the same exception provided to other LECs in the valuation of affiliate transactions, to prevent SNET's subscribers from being unfairly burdened with costs, only because SNET's corporate structure may differ from other LECs.

Respectfully submitted,

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February 20, 1997

SERVICES AND SUPPLIES PROVIDED BY THE COMPANY TO AFFILIATES

TRANSACTION	SNET America	SNET Cellular	SNET Credit	SNET Diver. Group	SNET Mobility	SNET Personal Vision	SNET Real Estate	Southern New England Telecom- munications
Accounting Services	X	X	X	X	X	X	X	X
Administrative Services	X	-	-	-	-	-	-	-
Advertising	X	X	-	X	X	X	-	X
Billing Services	X	-	X	X	X	X	-	-
Contract Administration	-	-	-	X	-	-	-	-
Data Processing	X	X	-	X	X	X	X	X
Directory Advertising	-	-	-	X	X	-	-	-
Disbursement Services	X	-	-	X	X	X	X	X
Fleet Operations Services	-	-	-	-	-	-	-	-
Government Relations	-	-	-	-	-	-	-	X
Legal Service	X	X	X	X	X	X	X	X
Market Planning & Analysis	-	X	-	X	X	-	-	-
Marketing Services	-	-	-	-	-	-	-	-
Marketing Services and Support	X	-	-	X	X	X	-	-
Marketing Support	-	-	-	-	-	-	-	-
Material Mgmt. and Distribution Svcs.	X	X	-	X	X	X	-	X
Operator Services	-	-	-	X	-	-	-	-
Payroll Service	X	X	-	X	X	X	-	X
Pension Trust Fund Administration	-	-	-	-	-	-	-	X
Personnel Services	X	X	-	X	X	X	-	X
Property and Maintenance Services	X	X	X	X	X	X	-	X
Public Relations - Corporate	-	-	-	-	-	-	-	X
Telecommunications Services - Tariff	X	X	-	X	X	X	-	X
Telecommunications Services - Cost	X	X	X	X	X	X	X	X

CERTIFICATE OF SERVICE

I hereby certify that on this 20th day of February, 1997, a true copy of SNET's Petition for Reconsideration, CC Docket No. 96-150, was sent via first class mail, postage prepaid or hand delivered to each of the parties listed below:


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